

# Tax relief on homes may not move needle in Mum, Delhi

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The Finance Minister's move to increase the differential between circle rates and agreement value — from 10 per cent to 20 per cent for homes up to ₹2 crore — is unlikely to have any major impact in Mumbai and Delhi-NCR as majority of houses are above ₹2 crore in the country's two largest property markets, top developers said.

Earlier, if the difference between circle rate and agreement value exceeded 10 per cent, it was treated as income and, hence, taxed. The new relaxation is allowed till June 30, 2021.

"It won't have a big impact in big cities such as Mumbai and Delhi. But in Tier1 and 2 cities where prices are in the range of ₹65 lakh to ₹1 crore, there will be an impact," said Rajiv Talwar, chief executive at DLF, the largest listed developer. Niranjan Hiranandani, MD Hiranandani Communities said the ₹2-crore cap was a problem. "Though it would help in smaller cities, they should remove the ₹2 crore cap. They should apply it to commercial real estate also," Hiranandani said. Keki Mistry, vice chairman and CEO of HDFC, said there should not be any ceiling. "The market prices have fallen across segments including affordable and luxury. In place like central and south Mumbai where property values are above ₹2 crore, prices have fallen much more. The benefit to high-value residential premises would increase effectiveness of step," Mistry said. Earlier in the day, FM Nirmala Sitharaman said: "A lot of inventory will get cleared and buyers will pay less tax on differential between circle rates and agreement value."

She said the move would help middle class which wants to buy when there is "supply side boom" and inventories are building up. "For homebuyers, it is a clear added financial benefit to round off the existing

offers and discounts. Additionally, the consequential relief up to 20 per cent to buyers of these units for the said period will definitely boost demand, especially in the affordable and mid segments," said Anuj Puri, chairman, Anarock Property Consultants. According to Anarock Research, there are around 545,000 unsold units across the top 7 cities priced up to ₹1.5 crore while another 49,290 units priced between ₹1.5 crore and ₹2.5 crore.

Developers in Bengaluru cheered the announcement.

"This (relaxation) will give a lot of ease for sales. And good thing is that it is only for first sale only," said Irfan Razack, chairman at Prestige Estates Projects, a Bengaluru-based developer.

The FM also announced an additional outlay of ₹18,000 crore for PM Awas Yojana (PMAY - Urban) which is over and above ₹8,000 crores already spent this year. It will help 1,200,000 houses to be grounded and 1,800,000 houses to be completed.

"This will help bridge the housing gap in the country to a good extent and is simultaneously an excellent economic growth driver by creating more employment," Puri said. As of August, 10.6 million homes had already been sanctioned in the country, of which 33 per cent or around 3.5 million homes are completed while another 6.6 million units have been grounded for construction.

Sitharaman also announced a new Emergency Credit Line Guarantee Scheme (ECLGS) 2.0, which will cover the mid-sized companies in the 26 stressed sectors which includes real estate. However, the real estate stocks did not respond much to FM's announcements. BSE Realty Index closed the day at 1884.1, about 0.8 per cent higher than Wednesday's close. DLF, the country's largest developer, ended at ₹182.6, 0.2 per cent lower than previous close.

(With inputs from Abhijit Lele)

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### What is the issue?

Due to price correction in real estate, prices of housing units have fallen below the circle rate. Circle rate is the minimum price, set by local governments, at which a real estate asset has to be registered when being transferred. When a transaction happens below the circle rate, it leads to taxation of buyer and seller. According to the tax rules, if the market value of the property is lower than the circle rate, then the difference is taxed as 'other income' for the buyer. The developer has to use the circle rate to calculate profit.

### What benefit has the FM provided?

Earlier, a transaction could happen at 10% below the circle rate without attracting taxation. Now, the limit has been enhanced to 20%.

### What does it mean?

Developers will be able to clear their real estate inventory at prices below circle rate. Buyers won't have to pay tax.

### What are the limitations?

This relief is available only on primary sales and not on secondary sales. The value of the unit can't exceed ₹2 crore, so it may not be available to housing units located in more central locations of major metros. The benefit will only be available up to June 30 2021.